



**DEPARTMENT OF INSURANCE, FINANCIAL
INSTITUTIONS AND PROFESSIONAL REGISTRATION**

P.O. Box 690, Jefferson City, Mo. 65102-0690

RE: Examination Report of Mercy Health Plans as of December 31, 2006

ORDER

After full consideration and review of the report of the financial examination of Mercy Health Plans for the period ended December 31, 2006, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Douglas M. Ommen, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, the findings and conclusions of the examination report are incorporated by reference and deemed to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo.

Based on such findings and conclusions, I hereby ORDER Mercy Health Plans, to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement, and verify compliance with, each item mentioned in the General Comments and/or Recommendations section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this May 28, 2008.

DOUGLAS M. OMMEN, Director
Department of Insurance, Financial Institutions
and Professional Registration



REPORT OF
FINANCIAL EXAMINATION
Mercy Health Plans
Formerly
(Premier Health Insurance Company, Inc.)

AS OF
DECEMBER 31, 2006



FILED
JUN 07 2008
DIRECTOR OF INSURANCE,
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION

STATE OF MISSOURI
DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND
PROFESSIONAL REGISTRATION
JEFFERSON CITY, MISSOURI

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April 15, 2008
St. Louis, Missouri

Honorable Alfred W. Gross, Commissioner
Bureau of Insurance
Virginia State Corporate Commission
Chairman, Financial Condition (E) Committee, NAIC

Honorable Merle D. Scheiber, Director
Division of Insurance
State of South Dakota
Secretary, Midwestern Zone, NAIC

Honorable Douglas M. Ommen, Director
Missouri Department of Insurance,
Financial Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, MO 65101

Gentlemen:

In accordance with your financial examination warrant, a full scope association financial examination has been made of the records, affairs and financial condition of the

Mercy Health Plans
formerly
(Premier Health Insurance Company, Inc.)

also referred to as the "Company." The examination was conducted at the Company's office at 14528 S. Outer 40, Suite 300, Chesterfield, MO 63017-5705, telephone number (314)-214-8100. This examination began on April 30, 2007, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The prior full scope association financial examination of Mercy Health Plans, was performed as of December 31, 2002. The examination was conducted by examiners from the state of Missouri representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC) with no other zones participating.

The current full scope association financial examination covers the period from January 1, 2003, through December 31, 2006. The examination was conducted by examiners from the state of Missouri representing the Midwestern Zone of the NAIC. Lewis & Ellis, Inc., Actuaries &

Consultants, reviewed reserves and related actuarial items pursuant to a contract with the Department of Insurance, Financial Institutions and Professional Registration (DIFP).

This examination also included material transactions and/or events occurring after December 31, 2006.

Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the NAIC, except where practices, procedures and applicable regulations of the Department of Insurance, Financial Institutions and Professional Registration and statutes of the state of Missouri prevailed.

Comments Previous Examination

The general comments and recommendations in the previous examination report and the Company's response and/or subsequent action taken by the Company are listed below.

1. Comment: Management

The Company's bylaws call for an executive committee made up of five members. The current executive committee only has four members. The Company should either amend its bylaws or appoint another member to the executive committee.

Company's Response:

The Company responded by appointing a fifth member to the executive committee on September 11, 2003.

Current Findings:

Although Article IV of the bylaws states that the Company shall have an Executive committee comprised of five members, there was no election of members to that committee documented in the Board of Directors' minutes during the examination period. The Company was unable to provide minutes of an Executive committee.

HISTORY

General

Premier Health Insurance Company, Inc. was organized on July 15, 2002, and received a certificate of incorporation from the Missouri Secretary of State on September 12, 2002. The Company received a certificate of authority from the Missouri Department of Insurance on October 17, 2002, to operate under Chapter 376 RSMo (Life, Health and Accident Insurance) and commenced business on January 1, 2003. The Company changed its name to Mercy Health Plans subsequent to the examination period, on August 29, 2007.

Capital Stock

Pursuant to the Company's articles of incorporation, the Company was originally authorized to issue up to 500,000 shares of common stock with a par value of \$1 per share. Initially, 15,743.13 shares were issued to MHP, Inc. for \$100 per share. This resulted in initial capitalization of \$1,574,313, which included \$15,743 of capital stock at \$1 par value per share and \$1,558,570 of paid-in surplus. On October 14, 2002, the board ratified an amendment to the articles of incorporation, increasing the par value of the common stock to \$100 per share. At the same time they approved the retirement of 9,743.13 shares of common stock. Thus at December 31, 2002, there were 6,000 shares of \$100 par value common stock issued and outstanding for a value of \$600,000. The amount received for the retired stock (\$974,313) was allocated to paid-in surplus.

The Company issued another 10,000 shares of capital stock on December 9, 2004, for \$1,000,000, resulting in total outstanding stock at December 31, 2006, of 16,000 shares with a capitalization of \$1,600,000. The Company's immediate parent, MHP, Inc., a Delaware corporation, owns all the stock.

Contributions were made to paid-in surplus in 2005 and 2006 resulting in a balance at December 31, 2006 of \$27,374,313.

Dividends

The Company has not paid any dividends.

Management

The Board of Directors of the Company consists of nine members duly elected at the annual meeting of the sole shareholder, as authorized by the Articles of Incorporation. The members elected and serving as of December 31, 2006, were as follows:

<u>Name</u>	<u>Principal Occupation</u>
Ronald B. Ashworth Chesterfield, MO	Sisters of Mercy Health System, St. Louis, Inc. President/Chief Executive Officer
Ronnie D. Brownsworth, M. D. Springfield, MO	St. John's Health System Sr. Vice President-Medical Management
Kim Day Springfield, MO	St. John's Health System Chief Financial Officer
Thomas H. Hale, M.D. St. Louis, MO	Mercy Medical Group President
Margaret D. DeNarvaez St. Louis, MO	St. John's Mercy Health Care President/Chief Executive Officer

<u>Name</u>	<u>Principal Occupation</u>
James R. Jaacks Chesterfield, MO	Sisters of Mercy Health System, St. Louis, Inc. Vice President/Chief Financial Officer
Mark L. Lane Rego Park, NY	Fidelis Care New York President/Chief Executive Officer
Michael G. Murphy Chesterfield, MO	MHP, Inc. President/Chief Executive Officer
Robert R. Vogel Chesterfield, MO	Sisters of Mercy Health System, St. Louis, Inc. Vice President – Managed Care

Article VI of the bylaws states that, "The officers of the corporation shall include a president, a treasurer and a secretary...The president may appoint such other officers and agents as he shall deem desirable..."

The officers elected and serving as of December 31, 2006, were as follows:

<u>NAME</u>	<u>POSITION</u>
Michael G. Murphy	President/Chief Executive Officer
Charles S. Gilham	Corporate Secretary
George A. Schneider	Chief Financial Officer/Treasurer

Conflict of Interest

The Company has a compliance program pursuant to which employees are required to disclose any possible conflicts of interest. Review of the Conflict of Interest Statements revealed no conflicts deemed material and none that had not previously been disclosed to the Board of Directors.

Corporate Records

The Company reported no amendments to the Articles of Incorporation or the bylaws during the period under examination. The minutes of the Board of Directors meetings provided sufficient documentation of major corporate transactions, however there was insufficient corporate documentation as noted below:

Election of members to the Board of Directors is a function of the stockholders; however the election was instead noted in the Board of Directors meeting minutes. The Company was unable to provide minutes of stockholder meetings during the examination period.

Acquisitions, Mergers, and Major Corporate Events

During the period covered by this examination, the Company had no acquisitions, mergers or other major corporate events.

Surplus Debentures

None

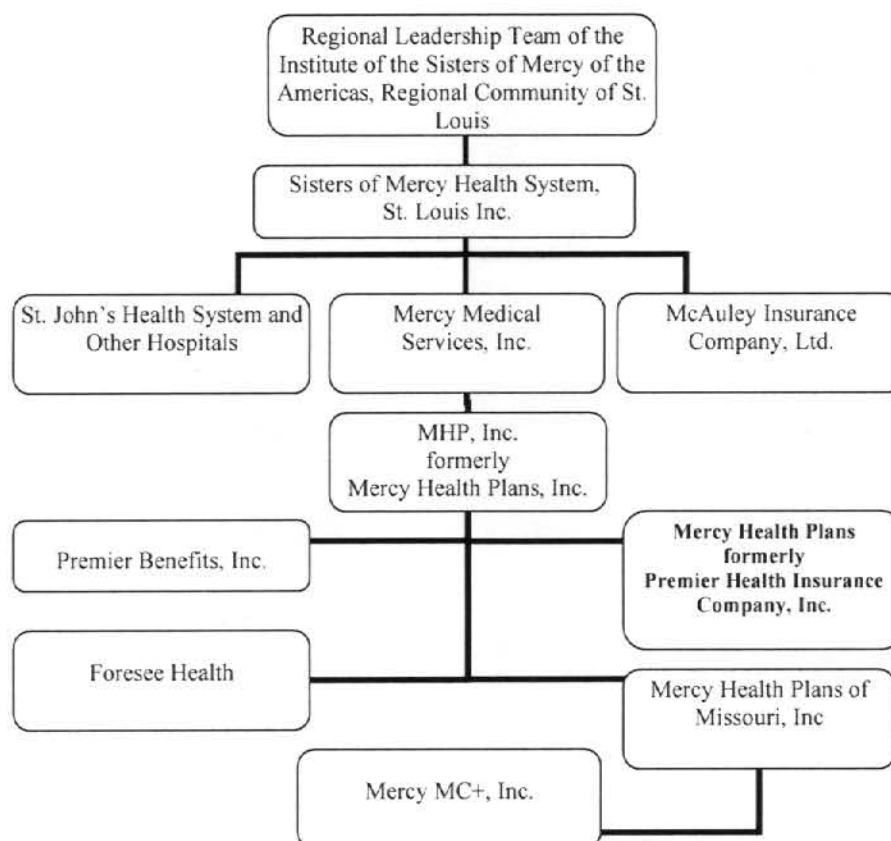
AFFILIATED COMPANIES

Holding Company, Subsidiaries and Affiliates

The ultimate controlling person in the insurance holding company system is the Regional Leadership Team of the Institute of the Sister of Mercy of the Americas, Regional Community of St. Louis (Sisters of Mercy). The Sisters of Mercy is a Roman Catholic order of nuns. One of their ministries is Sisters of Mercy Health System, St. Louis, Inc., a not-for-profit corporation. Sisters of Mercy Health System, St. Louis, Inc. owns 100% of the stock of MHP, Inc., (formerly Mercy Health Plans, Inc.), a for profit holding company that owns 100% of the stock of Premier Benefits, Inc., Mercy Health Plans, (formerly Premier Health Insurance Company, Inc.), Mercy Health Plans of Missouri, Inc. and ForeSee Health, Inc.

Organizational Chart

The Sisters of Mercy and some of their subsidiaries form an insurance holding company system as defined by Section 382.010 RSMo (Definitions). The organizational chart below depicts the portion of the holding company system of which Mercy Health Plans is directly a part.



Intercompany Agreements

During the period under examination the Company was party to the following intercompany agreements, not including reinsurance agreements. Reinsurance agreements are discussed in the reinsurance section of this report.

1. Type: Tax Allocation Agreement
- Parties: Mercy Medical Services, Inc., MHP, Inc., Mercy Health Plans of Missouri, Inc., Premier Benefits, Inc., Mercy Health Plans, Foresee Health, Inc., and Mercy MC+, Inc.
- Effective: October 1, 2005
- Terms: The companies elect to file consolidated federal income tax returns pursuant to the provisions of section 1501 of the Internal Revenue Code of 1986 as amended.

The consolidated federal income tax liability of the companies shall be apportioned to each company as if each company had computed its federal income tax liability on a separate company basis.

Allocations will be reconciled within 45 days after the end of each quarter

and settlement of any tax liability will be made within 90 days from the filing of the consolidated return.

2. Type: Guaranty Agreement
Parties: Sisters of Mercy Health System, St. Louis, Inc. and MHP, Inc.
Effective: February 2, 2000, updated May 7, 2004
Terms: Sisters of Mercy Health System, St. Louis, Inc. unconditionally guarantees the due and punctual payment of all legal obligations of MHP, Inc. and subsidiaries (includes Mercy Health) and unconditionally guarantees that MHP, Inc. will maintain an adequate level of capital to comply with all regulatory and statutory requirements.

The guaranty is to remain in effect until the earlier of: (a) when MHP, Inc. is assigned an independent financial strength rating from Standard & Poor's Ratings Group, equal to or better than guarantor or (b) 90 days after this guaranty is revoked by written notice to MHP, Inc. and the Missouri Department of Insurance.
3. Type: Disease Management Agreement
Parties: Mercy Health Plans of Missouri, Inc., Mercy Health Plans, Mercy MC+, Inc., and Foresee Health, Inc.
Effective: October 1, 2005
Terms: Foresee Health, Inc. is an affiliated company providing various disease management programs to the other companies in this agreement where medical management is not already delegated. The programs offered include management of diabetes, asthma, congestive heart failure, and complex care coordination.

The companies will pay per member per month (PMPM) fees to Foresee Health, Inc. for these services.
4. Type: Management Agreement
Parties: MHP, Inc., Mercy Health Plans of Missouri, Inc., and Mercy Health Plans
Effective: Original April 5, 1995, last revision January 1, 2005
Terms: MHP, Inc. will provide the following services to the other parties; financial services, management of general accounting, provider relations, system development, purchasing, compliance, personnel, professional, support services management, and general management.

The companies will pay PMPM fees for these services.

5. Type: Medical Management Agreement
- Parties: MHP, Inc., Mercy Health Plans of Missouri, Inc., and Mercy Health Plans
- Effective: November 24, 1997, last revision January 1, 2005
- Terms: MHP, Inc. will provide the following services to the other Companies: utilization management, provider credentialing, and quality management.
- Mercy Health Plans of Missouri, Inc., and Mercy Health Plans will in return provide the following services to MHP, Inc.: beneficiary appeals, final determination concerning payment for services, follow-up on complaints and quality improvement action plans, assist MHP, Inc. in compliance with the Joint Commission on Accreditation of Healthcare Organizations (JCAHO) and the National Committee for Quality Assurance (NCQA) standards, design and implementation of all health benefit plans, and be responsible for the selection and approval of providers, and to contract with a third party administrator to process all claims submitted on behalf of third-party payers who have contracted with MHP, Inc. for such services.
- The companies will pay PMPM fees for these services.
6. Type: Administrative Services Agreement
- Parties: Premier Benefits, Inc., Mercy Health Plans of Missouri, Inc. and Mercy Health Plans
- Effective: April 5, 1995, last revision January 1, 2005
- Terms: Mercy Health Plans of Missouri, Inc. and Mercy Health Plans will prepare and print the forms and other documents necessary for Premier Benefits, Inc. to provide services pursuant to the agreement.
- Premier Benefits, Inc. shall process or arrange for the processing of claims for health services under the plan.
- Mercy Health Plans of Missouri, Inc. and Mercy Health Plans shall arrange for the providers to submit claims directly to Premier Benefits, Inc. and shall provide standard forms for the submission of claims.
- Premier Benefits, Inc. shall conduct coordination of benefits (COB) consistent with the terms of the plans. Premier Benefits, Inc. will assert, or arrange for a third-party to assert, any subrogation rights regarding payments for health services.
- The companies will pay PMPM fees for these services.

7. Type: Base Agreement
Parties: MHP, Inc., on behalf of all of its wholly owned subsidiaries (including Mercy Health Plans), and St. John's Health System.
Effective: January 1, 1999
Terms: St. John's Health System provides a network for covered medical and hospital services to capitated commercial and Medicare members of the Company and to members of MHP, Inc.'s other wholly owned subsidiaries.

This agreement also provides that MHP, Inc. (and subsidiaries) may delegate the performance of medical management services to St. John's Health System.

St. John's Health System receives 88 to 90% of the premium to provide these services.

These agreements were all filed with the Department of Insurance, Financial Institutions and Professional Registration and were not disapproved.

FIDELITY BOND AND OTHER INSURANCE

Mercy Health Plans is insured on a \$1,250,000 crime policy, issued to MHP Inc. and subsidiaries with a \$1,000 deductible. This coverage meets the NAIC suggested minimum coverage.

The Company is also insured on other coverages which include but are not limited to: auto liability, auto physical damage, comprehensive liability, excess liability healthcare, directors and officers, employment practices, fiduciary, non-owned aircraft liability, property and workers' compensation. The Sisters of Mercy Health System, St. Louis, Inc. appears to provide adequate coverage for the exposed risks of Mercy Health Plans.

EMPLOYEE BENEFITS

The Company has no employees. All personnel services are provided pursuant to the management agreement with MHP, Inc., (formerly Mercy Health Plans, Inc.)

The Sisters of Mercy Health System, St. Louis, Inc., provides a complete benefit package for all employees of its holding company group, including vacation, sick leave, life insurance, disability coverage, tuition reimbursement, medical, dental and vision benefits, and flexible spending accounts. They also provide both a pension plan, which is completely funded by the Sisters of Mercy Health System, St. Louis, Inc., and a 401 (k) plan for all employees.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Department of Insurance, Financial Institutions and Professional Registration as of December 31, 2006, as reflected below, were deemed sufficient in par and market value to meet the deposit requirement for the State of Missouri in accordance with Section 376.290 RSMo (Deposit and transfer of securities):

<u>Security</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
U.S. Treasury Note	<u>\$ 620,000</u>	<u>\$ 609,392</u>	<u>\$ 614,792</u>

Deposits with Other States and Territories

The Company maintains funds on deposit with other states in which it is licensed to satisfy their statutory deposit requirements. The funds on deposit with other states as of December 31, 2006, are listed below.

<u>State or Territory</u>	<u>Security</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
Arkansas	U.S. Treasury Note	<u>\$ 105,000</u>	<u>\$ 103,204</u>	<u>\$ 103,829</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operations

The Company is licensed under Chapter 376 RSMo (Life, Health and Accident Insurance) with the Department of Insurance, Financial Institutions and Professional Registration to operate as a health insurer. The Company is also licensed in the state of Arkansas.

This Company was formed to write PPO (preferred provider organization) business. The Company's business is largely group preferred provider health insurance. A large portion of the Company's business is concentrated in the St. Louis and Springfield, Missouri, metropolitan areas. The Company began conducting business in Arkansas effective January 1, 2006, selling a small amount of its PPO product.

Policy Forms & Underwriting; Advertising & Sales Materials and Treatment of Policyholders

The DIFP has a Market Conduct staff that performs a review of these issues and generates a separate Market Conduct report. A Market Conduct examination was conducted concurrently with this examination. No issues were noted which would have a financial impact on the Company's solvency.

REINSURANCE

General

The Company's premium income on a direct written, assumed and ceded basis for the current examination period was as follows:

	<u>2006</u>		<u>2005</u>		<u>2004</u>		<u>2003</u>
Direct Business	\$ 150,482,675	\$	77,188,488	\$	23,667,998	\$	6,458,027
Reinsurance Assumed	-		-		-		-
Reinsurance Ceded	(309,843)		(96,789)		(60,572)		(17,188)
Net Premiums	<u>\$ 150,172,832</u>	<u>\$</u>	<u>77,091,699</u>	<u>\$</u>	<u>23,607,426</u>	<u>\$</u>	<u>6,440,839</u>

Assumed

The Company does not assume any business.

Ceded

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer fails to perform its obligations under the reinsurance agreement.

From 2003 through 2005, the Company obtained excess reinsurance coverage through Munich American Reassurance Company. In 2006, the Company contracted with Employers Reinsurance Corporation. The agreement provides for retention by the Company of the first \$400,000 of hospital services and first \$250,000 for medical services for each member during the year. The Company also retains a portion of the cost above the initial retention: 10 percent for scheduled services and more if cost exceeds the scheduled rate.

The agreement also provides for a carryover if the agreement is renewed. Losses incurred during the last 60 days of the agreement period for which the specific retention was not met are reinsured as if incurred during the next agreement.

There is a \$2,000,000 limit per member per agreement period and per lifetime.

The Company was also party to an "Experience Refund Agreement" among itself, Employers Reinsurance Corporation, Mercy Health Plans of Missouri, Inc., and Mercy MC+, Inc. The provisions of this agreement provide for a refund from Employers Reinsurance Corporation should certain premium and loss ratio goals be met. This agreement had no material effect on any of the Companies.

ACCOUNTS AND RECORDS

An independent accounting firm audits the Company annually. The Company's 2006 financial statements were audited by the CPA firm, Ernst & Young LLP. Their workpapers were used in the course of this examination as deemed appropriate.

Reserves and related actuarial items reported in the financial statements were reviewed and certified by Daniel S. Pribe, F.S.A., M.A.A.A., Executive Director of Actuarial and Underwriting Services, MHP, Inc.

The actuarial firm of Lewis & Ellis, Inc., reviewed the actuarial assumptions and methods used by the Company in determining claims unpaid, policy reserves and related actuarial items pursuant to a contract with the Department of Insurance, Financial Institutions and Professional Registration and they opined that reserves and related actuarial items were reasonable.

Andrew Balas, the Information Systems Examination Specialist with the Department of Insurance, Financial Institutions and Professional Registration reviewed the Company's information systems with no major problems noted. The Company has a disaster recovery plan in place. All information system services are provided by the parent company.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2006, and the results of operations for the fiscal period then ended. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the financial statements.

There may have been additional differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial in relation to the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual financial statement item.

ASSETS

	Amounts Per Annual Statement			Notes	Examination Findings	
	Assets	Assets Not Admitted	Net Admitted Assets		Examination Adjustments	Net Admitted Assets
Bonds	\$5,245,628		\$5,245,628	1		\$5,245,628
Cash and short-term investments	17,716,557		17,716,557			17,716,557
Subtotal Cash and Invested Assets	\$22,962,185		\$22,962,185			\$22,962,185
Investment income due and accrued	55,137		55,137			55,137
Uncollected premiums and agents balances	1,749,238	167,242	1,581,997			1,581,997
Amounts recoverable from reinsurers	127,379		127,379			127,379
Federal and foreign tax recoverable	5,140,192		5,140,192			5,140,192
Net deferred tax asset	1,462,545	147,375	1,315,170			1,315,170
Furniture and Equipment	43,661	43,661				
Receivables from parent, subsidiaries and affiliates	7,650,757		7,650,757			7,650,757
Health care and other amounts receivable	742,157	264,111	478,046			478,046
Leasehold improvements	9,818	9,818				
Total Assets	\$39,943,069	\$632,207	\$39,310,863			\$39,310,863

LIABILITIES, CAPITAL AND SURPLUS

	Amounts Per Annual Statement	Notes	Examination Adjustments	Amounts Per Examination
Claims unpaid	\$14,738,320	2	(\$2,606,099)	\$12,132,221
Accrued medical incentive pool	40,111			40,111
Aggregate health policy reserves	1,798,326	3	4,042,266	5,840,592
Premiums received in advance	1,820,855			1,820,855
General expenses due or accrued	160,946			160,946
Payable to parent, subsidiaries and affiliates	81,365			81,365
Medicare Part D reserve reinsurance payment	120,624			120,624
Total Liabilities	\$18,760,546		\$1,436,167	\$20,196,713
Common capital stock	\$1,600,000			\$1,600,000
Gross paid in surplus	27,374,313			27,374,313
Unassigned funds	(8,423,995)		(\$1,436,167)	(9,860,162)
Total Liabilities, Capital and Surplus	\$39,310,864			\$39,310,864

STATEMENT OF REVENUE AND EXPENSES

	Amounts Per Annual Statement
Net premium income	\$150,172,832
Network Rental	
Capitation on ASO Plans	
Total revenues	\$150,172,832
Hospital and Medical:	
Hospital and medical benefits	\$69,576,224
Other professional services	1,454,137
Emergency room and out-of-area	3,722,402
Prescription drugs	17,051,572
Global capitation expense	45,136,217
Mental health capitation	200,975
Incentive pool withhold adjustment	40,111
subtotal	\$137,181,637
Less:	
Net reinsurance recoveries	(198,572)
Total hospital and medical	\$136,983,065
Claims adjustment expenses	4,668,594
General administrative expenses	17,977,876
Increase in reserves for life and accident and health contracts	1,798,326
Total underwriting deductions	\$161,427,861
Net underwriting gain or (loss)	(\$11,255,029)
Net investment income earned	910,345
Net investment gains	(\$10,344,683)
Federal and foreign income taxes incurred	2,324,623
Net Income	(\$8,020,060)

NOTES TO FINANCIAL STATEMENTS

Note 1 Cash

\$(-0-)

No change was made to the cash account; however, the Company consolidated its cash into an account held by Mercy Health Plans of Missouri, Inc., which invested it in cash and short-term assets. The Company should have reported the asset as an intercompany receivable and non-admitted it. The Company has agreed to end the co-mingling arrangement and maintain separate cash accounts will be maintained for each company.

Note 2 Claims Unpaid

\$(12,132,221)

The account was reduced by \$2,606,099 based on the DIFP consulting actuary's analysis which determined that the claims unpaid as reported by the Company were overstated.

Note 3 Aggregate Health Policy Reserves

\$(5,840,592)

The account was increased by \$4,042,266 to increase the reserve to an adequate level. The DIFP consulting actuary determined the premium deficiency reserve established as of 12/31/06 was deficient. In determining the level of expenses, the Company reduced the total administrative costs by expected corporate overhead costs for all regions except Springfield. This is allowable if other lines of business can cover the overhead expenses; however, the Company was unable to provide documentation to justify this reduction in expenses. When full expenses were incorporated into the calculation of premium deficiency reserve, the reserve was found to be deficient.

In the future, the Company should include overhead expenses in the calculation of the Commercial block Premium Deficiency Reserve unless justification can be provided that these expenses can be covered by other lines of business.

EXAMINATION CHANGES

Total Capital & Surplus Per Company

Common capital stock	\$1,600,000
Gross paid in surplus	27,374,313
Unassigned funds	(8,423,995)
Total capital and surplus per company	\$20,550,318

Notes	Increase In Surplus	Decrease In Surplus
2	\$2,606,099	
3		4,042,266
	\$2,606,099	\$4,042,266

Assets:

Liabilities:

Claims unpaid	2	\$2,606,099	
Aggregate health policy reserves	3		4,042,266
		\$2,606,099	\$4,042,266

Net change in unassigned surplus	17%	(1,436,167)
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Total Capital & Surplus Per Examination

Common capital stock	\$1,600,000
Gross paid in surplus	27,374,313
Unassigned funds	(9,860,162)
Total capital and surplus per examination	\$19,114,151

GENERAL COMMENTS AND/OR RECOMMENDATIONS

Comments Previous Examination

Page 2

Although Article IV of the bylaws states that the Company shall have an Executive committee comprised of five members, there was no election of members to that committee documented in the Board of Directors' minutes during the examination period. The Company was unable to provide minutes of an Executive committee.

The Company shall adhere to its bylaws which includes electing an Executive committee. The Company shall maintain the minutes of the meetings of the committee.

History

Page 4

Election of members to the Board of Directors is a function of the stockholders; however the election was instead noted in the Board of Directors meeting minutes. The Company was unable to provide minutes of stockholders' meetings during the examination period.

The Company is required to hold stockholder meetings and maintain the minutes thereof. Those minutes must document the election of the Board of Directors.

SUBSEQUENT EVENTS

The Company changed its name on August 29, 2007 from Premier Health Insurance Company, Inc., to Mercy Health Plans.

ACKNOWLEDGMENT

The assistance and cooperation extended by Mercy Health Plans during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Karen Milster, CFE, CPA, John Boczkiewicz, CFE, CPA, Douglas Daniels, CPA, and David Schaper examiners for the Department of Insurance, Financial Institutions and Professional Registration participated in this examination. Andrew Balas, DIFP Information Systems Financial Examiner reviewed the Company's Information Systems. Karen E. Elsom, FSA, MAAA, of Lewis & Ellis, Inc., Actuaries & Consultants, reviewed the actuarial assumptions and methods used by the Company in determining policy reserves and related actuarial items.

VERIFICATION

State of Missouri)
) ss
County of St. Louis)

I swear on my oath that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

Wyatt R Sample

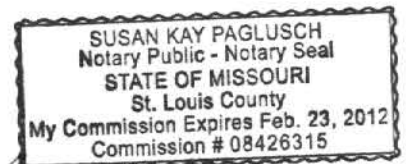
Wyatt R. Sample, CFE, CPA
Examiner-in-Charge, Department of Insurance,
Financial Institutions and Professional Registration
Midwestern Zone, NAIC

Sworn to and subscribed before me this 14 day of April, 2008
My commission expires: _____

My commission expires:

Feb 23, 2012

Susan Kay Cadmus
Notary Public



SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with the National Association of Insurance Commissioners procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

Christian Dugopolski, CFE, CPA

Christiana Dugopolski, CFE, CPA
Audit Manager, Department of Insurance,
Financial Institutions and
Professional Registration



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INSURANCE SOLVENCY
&
COMPANY REGULATION

May 20, 2008

Frederick G. Heese, CFE, CPA
Chief Financial Examiner & Acting Division Director
Missouri Department of Insurance
301 West High Street, Room 530
P.O. Box 690
Jefferson City, MO 65102-0690

Re: Mercy Health Plans (formerly Premier Health Insurance Company)
Financial Examination for the period ending December 31, 2006

Dear Mr. Heese:

Thank you for sending a Draft of the Financial Examination Report of Mercy Health Plans. The following responses to MDI's General Comments And/OR Recommendations beginning on Page 18 of the report may be included in the report as a public document.

Comments Previous Examination

Page 2

The Company will document the election of an Executive Committee in accordance with its bylaws.

History

Page 4

The Company will adhere to its bylaws and will provide more formal documentation of meeting minutes in the future, including meetings of the Executive Committee and Shareholder meetings.

If you need anything additional or have questions, please contact me.

Sincerely,

A handwritten signature in cursive script that reads 'George A. Schneider'.

George A. Schneider, Treasurer and CFO
Mercy Health Plans
14528 South Outer 40, Ste. 300
Chesterfield, MO 63017-5705

CC: Robert R. Vogel, President and CEO